

A series of interfaces with the entire range of stakeholders of Corporate Governance, has given rise to a number of questions, issues, concerns and, happily, some suggestions and solutions. In this issue, the fourteenth in this series, departing from our usual practice of getting two experts to state their views on a particular aspect of Corporate Governance, we take a close and hard look at a mandatory Board committee that, in most companies, is performing suboptimally. Needless to add, we welcome your feedback.

Editor

BREATHING LIFE INTO STAKEHOLDERS RELATIONSHIP COMMITTEES



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Even junior artistes have the privilege of being seen, albeit in crowd scenes, and sometimes getting to mouth a line or two. However, the Stakeholders Relationship Committee (SRC) in one large listed entity is both unseen and unheard in an ongoing corporate movie starring the Board, the management, the Chairs of the Nomination and Remuneration Committee (NRC) and the Audit Committee (AC), a significant shareholder with grievances, and a law firm. This clearly flies in the face of the provisions in the statute tasking the SRC with considering and resolving the grievances of security holders of the company.

The problem has its origin in the stepmotherly treatment given to the SRC. While the SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015 stipulate that Independent Directors (IDs) shall chair the AC and the NRC, the corresponding provision relating to the SRC is that a Non-Executive Director (NED) shall chair the SRC. NEDs, other than IDs, are often family members who have no executive responsibility in the company concerned and getting one of them to chair the SRC is akin to being a judge in one's family's cause. Such a committee's reaction or response is often to justify or explain the actions of the management in regard to matters that give rise to grievances of security holders. With the earlier Shareholders Grievance Committee (SGC) having been renamed as the SRC, it is legitimate for stakeholders to expect a committee that is more proactive and has a wider sweep in terms of its responsibilities. Regrettably, the Companies Act, 2013 (the Act) mandates the committee to only look into and resolve the grievances of security holders. SEBI LODR Regulations while seeking to elaborate the statutory prescription, specifically list "considering and resolving the grievances of the security holders of the listed entity including complaints related to transfer of shares, non-receipt of annual report and non-receipt of declared dividends" as the identified areas of grievances that the committee has to address. Mercifully, the Regulations use the word "including", giving rise to the possibility that the committee can travel beyond the listed subjects and address other grievances. In practice, there are very few companies that have seen any virtue in such an approach. If the words "but not limited to" had been used in the Regulations after the word "including", there might have been a gentle persuasive push to the committee to look at other issues.

There is also the avoidable confusion created by the Act by grandiosely using the word "stakeholders" while naming the committee, and the words "security holders" while mandating the area of responsibility of the committee. Considering that stakeholders' democracy is paramount in corporate governance, it would be useful for proactive SRCs to venture into areas that are not proscribed by law, even if they have not been expressly prescribed as responsibilities of the SRC. To elaborate, nothing should prevent the SRC from addressing grievances of stakeholders such as vendors, customers, distributors, employees, and the like, except where there is a statutory carve-out as in the case of the vigil mechanism which the AC is tasked to deal with. The handful of companies that have persuaded themselves to move beyond routine items like non-receipt of dividends and annual reports have obtained significant insights from grievances of other stakeholders, leading to systemic improvements.

It is also necessary for the committee to recognize that it is a relationship committee. Even at the risk of stating the obvious, it is worth mentioning that this is a committee that ought to relate and not merely to respond or react. A good SRC would be one that demonstrates initiative in identifying issues that stakeholders have, before they take the shape of grievances that are often dealt with on a case-to-case basis without process improvements being put in place.

Given that many of the suggested amendments to the Act have originated from industry associations seeking to do away with real or imaginary obstacles in conduct of business, it would be futile to expect that statutory changes would take place in regard to the SRC. Well-intentioned companies should see the prescriptive arrangements of the statute as the bare minimum requirement and should strengthen and breathe life into the SRCs. If companies seriously wish to practice the corporate governance principles that they often talk about, a good starting point would be the constitution of a strong SRC tasked to proactively relate to stakeholders and capture their valuable insights which can be put to productive use. Failing this, stakeholders could commence the process of disengagement with the company and shareholders could well vote with their feet.

Excellence Enablers recently organized a roundtable on "Breathing Life into Stakeholders Relationship Committees". The participants represented a mix of Chairpersons (including promoter and professional Chairpersons), CEOs, senior Company Secretaries and other senior functionaries in the corporate world. For summary of discussions of the deliberations, please visit our website www.excellenceenablers.com.

READERSPEAK - Chairperson – Superboss or First Among Equals?

M. V. Nair, Chairman, Credit Information Bureau of India (CIBIL)

"Informative and useful perspective."

Do let us know of any specific issues you would like to see addressed in subsequent issues.

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